

## Message Text

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PAGE 01 STATE 273148  
ORIGIN SS-25

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DRAFTED BY EA:E HEGINBOTHAM:"H  
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EB:J KATZ (SUBSTANCE)  
TREAS:F BERGSTEN (SUBSTANCE)  
COMMERCE:WEIL (SUBSTANCE)  
LABOR:MR. SAMUELS (SUBSTANCE)  
S/S: JETHYDEN  
DOD:M ABRAMOWITZ (SUBS)  
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FM SECSTATE WASHDC  
TO AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L STATE 273148

EXDIS, TO AMBASSADOR MANSFIELD FROM HOLBROOKE

E.O. 11652: GDS

TAGS: EGEN, ETRD

SUBJECT: YOUR DISCUSSIONS WITH PRIME MINISTER FUKUDA ON  
ECONOMIC PROBLEMS

1. YOUR MEETING WITH PRIME MINISTER FUKUDA AT THE END OF  
THE WEEK WILL SET THE STAGE FOR A PROCESS OF NEGOTIATIONS  
ON TRADE ISSUES, THE SUCCESS OF WHICH COULD SIGNIFICANTLY  
EFFECT THE GENERAL HEALTH OF OUR BILATERAL RELATIONSHIP IN  
THE YEARS TO COME. WE ALL AGREE WITH YOU ON THE NEED TO  
KEEP OUR VOICES LOW AND TO EXPRESS OUR INTENTION CLEARLY  
AND CONSISTENTLY IN OUR DEALINGS WITH THE JAPANESE. AN  
INTIMATE CONVERSATION BETWEEN YOURSELF AND FUKUDA IS THE  
MOST APPROPRIATE WAY TO SET THE TONE.

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2. THE SUBSTANTIVE PURPOSE OF THE MEETING WILL BE TO CON-  
VINCE FUKUDA OF THE SERIOUSNESS AND CONCERN WITH WHICH THE  
UNITED STATES VIEWS THE JAPANESE BALANCE OF PAYMENTS AND  
"RAD" SURPLUSES AND THE EFFECT THAT THESE ARE HAVING BOTH  
ON THE GLOBAL TRADING AND MONETARY SYSTEM AND ON ATTITUDES  
WITHIN AMERICA TOWARD JAPAN. WE ARE PREPARING AN INTER-

AGENCY PAPER FOR YOU TO PASS TO THE PRIME MINISTER WHICH DESCRIBES THE PROBLEMS CAUSED BY THE SURPLUSES, AND OUTLINES OUR SUGGESTIONS FOR AN APPROACH. YOUR PERSONAL INTERVENTION IS ESSENTIAL TO DESCRIBE THE MOUNTING POLITICAL

PRESSURES AROUND THE WORLD AND TO UNDERLINE TO THE JAPANESE THE IMPORTANCE OF ACTIONS WHICH WILL ALLEVIATE PUBLIC CONCERNS ABOUT THE ADVERSE EFFECTS OF IMPORTS ON DOMESTIC EMPLOYMENT AND WILL IMPROVE ACCESS TO JAPANESE MARKETS IN A FAIR AND UNEQUIVOCAL MANNER.

3. WHEN YOU SEE FUKUDA, I HOPE YOU WILL TELL HIM, AS I TOLD AMBASSADOR TOGO NOVEMBER 10, THAT THE PRESIDENT REMAINS COMMITTED TO CLOSE CONSULTATION AND TIES WITH JAPAN. AT THE SAME TIME, ALONG WITH VICE PRESIDENT MONDALE AND ALL CABINET OFFICERS INVOLVED, HE IS DEEPLY WORRIED OVER SIGNS OF JAPAN'S EXTERNAL SURPLUS AND JAPAN'S FAILURE TO REDUCE IT. THE TREND IN CONGRESSIONAL AND PUBLIC ATTITUDES TOWARD JAPAN REINFORCES THE NEED FOR FAST ACTION TO ALLEVIATE SOME OF THE PRESSURES.

4. IT IS ALSO ESSENTIAL FOR FUKUDA TO UNDERSTAND THE IMPORTANCE THE UNITED STATES ATTACHES TO SOME FORM OF PUBLIC COMMITMENT TO ELIMINATE JAPAN'S CURRENT ACCOUNT SURPLUS AND TO OPEN ITS MARKETS TO IMPORTS, PARTICULARLY MANUFACTURES, AND TO REDUCE UNDUE RELIANCE ON EXPORTS. CONFIDENTIAL

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SUCH COMMITMENTS ARE ESSENTIAL TO PROVIDE CREDIBILITY TO THE PACKAGE OF SPECIFIC MEASURES WE ARE ALSO ADVANCING FOR THE PRIME MINISTER'S CONSIDERATION. WE BELIEVE THAT ONE ELEMENT OF THAT COMMITMENT SHOULD BE A PLEDGE TO ACHIEVE A CURRENT ACCOUNT DEFICIT. WE WILL WISH TO HEAR IN THE COMING DAYS THE RESPONSE OF THE GOJ AS TO WHEN AND HOW IT WILL MOVE TO ACHIEVE THAT GOAL. IN PURSUING THAT COMMITMENT A GROWTH TARGET OF 8 PERCENT IN JFY 1978 SHOULD BE AN IMPORTANT ELEMENT.

5. THE GOJ SHOULD ALSO CONSIDER A PUBLIC COMMITMENT TO ACHIEVE MAJOR INCREASES IN THE SHARE OF IMPORTED MANUFACTURES AND AGRICULTURAL GOODS AS A PERCENTAGE OF TOTAL CONSUMPTION AND A DRAMATIC INCREASE IN IMPORTS OF MANUFACTURED GOODS IN TWO OR THREE YEARS.

6. FUKUDA SHOULD BE AWARE THAT OUR PROPOSALS ARE OFFERED ONLY AS SUGGESTIONS FOR HIS CONSIDERATION. WE ADVANCE THEM IN RESPONSE TO COMMENTS BY JAPANESE OFFICIALS THAT THE UNITED STATES HAS NOT BEEN SPECIFIC IN SETTING OUT ITS DESIRES. WE ARE NOT TRYING TO IMPOSE PARTICULAR FORMULAS ON JAPAN. WE REALIZE ALSO THE FAR REACHING

IMPLICATIONS OF OUR IDEAS. THE IDEAS REPRESENT, HOWEVER, A CONSENSUS WITHIN THE US GOVERNMENT, AND INDICATE THE SERIOUSNESS WITH WHICH WE REGARD THE CURRENT SITUATION.

7. YOU WILL PROBABLY NOT WANT TO GO INTO THE DETAILED PACKAGE OF SPECIFIC MEASURES WE HAVE PREPARED. IT SHOULD BE ENOUGH TO STATE THAT THE MEASURES ARE LISTED IN THE "NON-PAPER" YOU WILL LEAVE WITH THE PRIME MINISTER AND THAT DICK RIVERS OF STR AND ERLAND HEGINBOTHAM OF STATE HAVE COME FROM WASHINGTON TO DISCUSS THEM WITH THE MINISTRIES INVOLVED. WE HOPE THE PRIME MINISTER WILL CONVEY TO THE MINISTRIES THE IMPORTANCE AND THE URGENCY OF POSITIVE, SIGNIFICANT ACTIONS.

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8. THE PRIME MINISTER SHOULD BE AWARE OF OUR HOPE THAT OUR GOVERNMENTS CAN AGREE BY EARLY DECEMBER ON BOTH THE PUBLIC COMMITMENTS AND THE SPECIFIC MEASURES NEEDED TO IMPLEMENT THEM. AMBASSADOR WOLFF STANDS READY TO COME TO TOKYO IN EARLY DECEMBER IF IT WILL BE USEFUL. AMBASSADOR STRAUSS WOULD COME TO JAPAN JUST PRIOR TO ANNOUNCEMENT.

9. IT WILL BE IMPORTANT TO CONSIDER THE SOLUTION TO THE BALANCE OF PAYMENTS PROBLEM ALONG WITH OTHER ASPECTS OF OUR RELATIONSHIP. THE SIZE, FOR EXAMPLE, OF THE JAPANESE TRADE SURPLUS FOCUSES PUBLIC AND CONGRESSIONAL ATTENTION OF JAPAN AS A SOURCE OF TRADE PROBLEMS. IN ADDITION, THE COMPARATIVELY SMALL PERCENTAGE OF GNP THAT JAPAN SPENDS ON DEFENSE STRENGTHENS THE COMPLAINTS OF THOSE WHO CRITICIZE JAPAN FOR TAKING A "FREE RIDE" AT US EXPENSE.

10. IN THAT CONNECTION THERE ARISES THE QUESTION OF THE COSTS OF MAINTAINING US BASES IN JAPAN, INCLUDING COSTS RELATED TO LABOR. THE PROCESS OF DISCUSSING THESE MATTERS HAS BEGUN, BUT PROGRESS SO FAR HAS FRANKLY BEEN DISAPPOINTING.

11. IN CONCLUSION, THE PRIME MINISTER HIMSELF HAS SEVERAL TIMES STRESSED TO YOU AND VISITORS FROM THE US, THE CRUCIAL IMPORTANCE OF AVOIDING THE KIND OF SITUATION WHERE NATIONALISTIC AND PROTECTIONIST ELEMENTS UNDULY INFLUENCE INTERNATIONAL GOALS. PROMPT ACTION IS NEEDED. WE UNDERSTAND OUR RESPONSIBILITIES AND WILL WORK TO DO OUR PART. IF THE UNITED STATES AND JAPAN, THE STRONGEST OF THE INDUSTRIAL DEMOCRACIES DO NOT MOVE QUICKLY AND CONVINCINGLY TO MAINTAIN THE WORLD TRADING SYSTEM, THE CONSEQUENCES WILL BE GRAVE INDEED. VANCE

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